

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 SIG-03 MMO-01 /100 W
-----127834 250425Z /61/11

R 231700Z MAR 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 1542
TREASURY DEPT WASHDC
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMCONSUL MILAN
AMCONSUL NAPLES
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMMEMBASSY TOKYO 2140

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PASS FRB; BRUSSELS FOR USEEC; PARIS FOR USOEC

C O R R E C T E D C O P Y F O R S E C T I O N A L I N F O

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: FINANCIAL MARKET DEVELOPMENTS (78-3)

REF: ROME 5404

1. ITALY'S OVERALL BALANCE OF PAYMENTS WAS IN SURPLUS
BY \$96 MILLION IN FEBRUARY, BRINGING THE CUMULATIVE
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OVERALL SURPLUS FOR THE FIRST TWO MONTHS OF THE YEAR
TO ABOUT \$700 MILLION. THE MAIN FEATURES OF ITALY'S
INTERNATIONAL MONETARY TRANSACTIONS IN FEBRUARY WERE
SLIGHT REDUCTIONS IN THE FOREIGN DEBTOR POSITIONS OF
THE COMMERCIAL BANKS AND OF THE MONETARY AUTHORITIES,
THUS CONTINUING JANUARY'S TREND, BUT ON A MUCH REDUCED
SCALE. OFFICIAL FOREIGN EXCHANGE RESERVES DECLINED

BY \$23 MILLION IN THE MONTH TO \$7.6 MILLION AS OF THE END OF FEBRUARY. THE BANKS' REDUCTION OF THEIR NET FOREIGN DEBTOR POSITION APPEARS TO BE RELATED TO EXPANDED LEeway UNDER THE CEILINGS PERMITTED ON BANKS' LIRA CREDITS TO COMMERCIAL USERS, WHICH MAY HAVE PROMPTED THE BANKS TO CONVERT FOREIGN EXCHANGE LOANS TO LIRA CREDITS AND TO REDUCE THEIR LIABILITIES TO FOREIGNERS. ALTHOUGH MOVEMENTS IN THE FORWARD DISCOUNT AND BLACK MARKET RATE INDICATED RELATIVELY STABLE EXPECTATIONS FOR THE LIRA/DOLLAR RATE, JANUARY-FEBRUARY WAS A PERIOD OF UNCERTAINTY CONCERNING THE COMPOSITION OF THE NEXT ITALIAN GOVERNMENT AND EXCHANGE RISK MAY HAVE ALSO BEEN A FACTOR IN THE BANKS' MOVE TO REDUCE THEIR DOLLAR EXPOSURE.

2. IN THE WEEK FOLLOWING THE KIDNAPPING OF ALDO MORO BY THE RED BRIGADES, THE LIRA APPRECIATED AGAINST THE DOLLAR AND AGAINST ALL CURRENCIES ON AN OVERALL TRADE-WEIGHTED BASIS, AND THE FORWARD DISCOUNT NARROWED TO 6 ERCENT FROM 7 PERCENT DURING THE PERIOD SINCE THE KIDNAPPING, THE BANK OF ITALY HAS CONTINUED TO HAVE MORE POSITIVE DAYS THAN NEGATIVE DAYS IN THE FOREIGN-EXCHANGE MARKET. IT IS DIFFICULT TO ACCOUNT FOR THE MARKET'S NON-NEGATIVE REACTION TO THIS TRAGEDY, WHICH HAS GRIPPED THE COUNTRY PERHAPS AS NO OTHER EVENT FOR SOMETIME, EXCEPT TO POINT TO THE MANY RESTRICTIONS ON FOREIGN EXCHANGE DEALINGS, ESPECIALLY ON FORWARD TRANSACTIONS,

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AND PERHPAS TO THE FACT THAT MARKET PARTICIPANTS HAVE ALREADY DISCOUNTED "THE WORST" IN ITALY AND ARE POSITIONED TO ABSORB AN EVENT OF THIS TYPE.

3. MONEY-MARKET RATES HAVE RISEN BY ABOUT A PERCENTAGE POINT DURING THE MOST RECENT TWO WEEKS. THE 48-HOUR INTERBANK RATE IS AT PRESENT 11 5/8/ THE RECENT RISE HAS BEEN ATTRIBUTED TO BANKS'S TEMPORARY NEED OF FUNDS TO PAY THE WITHHOLDING TAX ON INTEREST PAID ON DEPOSITS. THE RISE IS ALSO CONSISTENT WITH THE INTEREST RATE POLICY OF THE BANK OF ITALY, WHICH HAS BEEN A CONTINUAL NET SELLER OF TREASURY BILLS IN THE OPEN MARKET. SUCH SALES, IT SEEMS, HAVE RECENTLY PUT UPWARD PRESSURE ON BILL RATES.

4. SINCE THE BEGINNING OF 1977 THE BANK OF ITALY HAS

DRAINED SUBSTANTIAL AMOUNTS OF LIQUIDITY FROM THE SYSTEM THROUGH OPEN-MARKET SALES OF TREASURY BILLS. OPEN-MARKET SALES TOTALED 17,401 BILLION LIRE IN 1977 AND 3252 DURING JANUARY-FEBRUARY 1978. OPEN-MARKET OPERATIONS HAVE BEEN THE KEY INSTRUMENT FOR

CONTROLLING MONETARY BASE EXPANSION, WHICH HAS BEEN
FED BY BANK OF ITALY PURCHASES OF LONGER -TERM TREASURY
SECURITIES, BALANCE OF PAYMENTS SURPLUSES, AND
DURING EARLY 1977, THE REFUNDING OF THE PRIOR
IMPORT DEPOSIT. IN THE 12 MONTHS ENDING FEBRUARY
1978, MONETARY BASE (EXCLUDING POSTAL DEPOSITS)
INCREASED BY 19.6 PERCENT, OR JUST SLIGHTLY LESS THAN THE
21.0 PERCENT INCREASE DURING THE SAME PERIOD 1976-77.

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TABLE 1 - MONETARY MOVEMENTS (MILLIONS OF DOLLARS)

JAN 1-31 FEB 1-28 JAN 1-

FEB 28

1. BOI/UIC A A A

GOLD

CONV. FOR. EX. -360.1 -22.7 -369.5

OTHER 222.6 29.8 253.8

TOTAL BOI/UIC -137.5 7.1 -115.7

2. COM. BANKS' NET

FOREIGN POSITION 761.5 41.1 755.2

SUB-TOTAL 624.0 48.2 639.5

3. FOR EXCHANGE

ADJUSTMENT 18.1 47.8 65.9

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4. SURPLUS/DEFICIT 642.1 96.0 705.4

TABLE 2 - FOREIGN RESERVE POSITION (MILLIONS OF DOLLARS)

	1977	1978	1978
	DEC. 31	JAN. 31	FEB. 28

1. BOI/UIC

GOLD	11,260.1	11,260.1	11,260.1
CONV. FOR. EX.	7,969.3	7,622.5	7,599.8
OTHER 1)	-5,583.3	-5,359.8	-5,330.0
TOTAL BOI/UIC	13,645.6	13,522.8	13,529.9

2. COM. BANKS' NET

FOREIGN POSITION	-6,623.0	-5,908.9	-5,867.8
TOTAL	7,022.6	7,613.9	7,662.1

1) INCLUDES LIABILITIES TO EC, BUNDES BANK AND IMF

TABLE 3 - EXTRAORDINARY TRANSACTIONS (MILLIONS OF DOLLARS)

JAN 1-31 FEB 1-28 JAN 1 - FEB 28

FIAT/LIBYA	-	-	-
IMF (1974) STANDBY	-	-	-
IMF (1977) STANDBY	-	-	-
IMF GOLD TRANCHE	-	-	-
BUNDES BANK GOLD LOAN	-	-	-
EC LOAN	-	-	-
EUROMARKET LOANS	-	-3.7	-3.7

TABLE 4 - FOREIGN EXCHANGE AND MONEY MARKET RATES

JAN 25 FEB 15 MAR 21

LIRA/\$ SPOT	867	858	856.20
LIRA/\$ 6 MO.	905	883	878.70
LIRA/\$ BLACK MKT	917	893	870
BOI FX INDEX 1)			
ALL CURRENCIES	-39.84	-38.98	-89.38
DOLLAR	-32.99	-32.30	-32.14

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INTEREST RATES

INTERBANK 3 MO.	11.188	11.313	2) N.A.
PRIME RATE	16.00	16.00	1600.
AVERAGE GOND	14.198	14.109	14.052
LIRA/\$ 3MO.			
DISCOUNT	9.0	5.8	6.0

EURODOLLAR 3 MO. 7.375 7.25 7.375

1) WEIGHTED AVERAGE PERCENT DEPRECIATION SINCE 2/9/73
(SECOND DOLLAR DEVALUATION)
2) AS LIST QUOTED FEBRUARY 2, 1978
N.A. EQUALS NOT APPLICABLE

TABLE 5 - MONETARY AND CREDIT AGGREGATES (RATES
OF CHANGE IN PERCENT)

1977

1Q 2Q 3Q 4Q 12 MOS.
ENDING

MONETARY BASE 1)

RAW	3.0	2.3	4.4	8.0	19.6 (FEB)
SEAS. ADJ.	5.3	1.9	5.1		
M1, SEAS. ADJ. 2)	6.2	3.4	5.0		19.2 (NOV)
M3, SEAS. ADJ. 3)	6.0	4.0	4.2		21.6 (OCT)

TOTAL DOMESTIC

CREDIT	4.8	3.0	2.3		17.9 (NOV)
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1) EXCLUDING POSTAL DEPOSTIS

2) CURRENCY IN CIRUCLATION PLUS DEMAND DEPOSITS

3) M1 PLUS SAVINGS DEPOSITS AND TREASURY BILLS IN
HANDS OF NON-BANK PUBLIC.

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Message Attributes

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Disposition Approved on Date:
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